

Introduction to the Direct Loan Program



CHAPTER 1

OVERVIEW OF THE DIRECT LOAN PROGRAM

The William D. Ford Federal Direct Loan Program (Direct Loan Program) was authorized under Title IV of the Higher Education Act of 1965, as amended (HEA) when the Student Loan Reform Act of 1993 was enacted. It began operation in the 1994–1995 award year. A major source of federal student financial assistance, the Direct Loan Program provides loans to eligible borrowers to cover postsecondary education costs. The Direct Loan Program uses funds provided by the Federal government, and makes loans available directly through participating schools.

Types of Direct Loans

The following types of loans are available through the Direct Loan Program:

Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) are made to undergraduate students who demonstrate financial need. Borrowers are not charged interest while they are enrolled in school at least half time and during grace periods and deferment periods. When borrowers cease to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Direct Subsidized Loan begins and interest begins to accrue the day after the grace period ends.

The Consolidated Appropriations Act of 2012 temporarily eliminates the interest subsidy on Direct Subsidized Loans during a borrower's six-month grace period. This change is effective for disbursements of Direct Subsidized Loans that are first disbursed after July 1, 2012, and on or before June 30, 2014.

Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans) are made to students (undergraduate, graduate, and professional). They do not require students to demonstrate financial need. Borrowers are responsible for the interest that accrues during all periods over the life of a Direct Unsubsidized Loan. During periods of enrollment and the grace period, borrowers may choose to pay the interest or have it capitalized. When a borrower ceases to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Direct Unsubsidized Loan begins the day after the grace period ends.

Direct Loan Program

Title IV, Part D of the HEA
34 CFR 685

Direct Subsidized Loans are no longer being made to graduate and professional students.

Rules on When Interest is Charged

No interest is charged on Direct Subsidized Loans while borrowers are enrolled in school at least half-time, during deferment periods, and during certain other periods of repayment under the Income-Based Repayment (IBR) and Pay as You Earn Repayment Plan.

No interest is charged during the grace period on Direct Subsidized Loan first disbursed (paid out) before July 1, 2012, or after June 30, 2014.

Interest is charged during the grace period on Direct Subsidized Loans first disbursed (paid out) July 1, 2012, through June 30, 2014.

Cite
PL 112-74
HEA 428(a)(3)(A)(i)(I)

Federal Direct PLUS Loans (**Direct PLUS Loans**) are made to graduate and professional students (Grad Direct PLUS Loans) or parents (and in some cases stepparents of dependent undergraduate students (Parent Direct PLUS Loans). Interest on a Direct PLUS Loan begins to accrue when the loan is first disbursed. Repayment begins when the loan is fully disbursed. However, all Direct PLUS borrowers may defer repayment while the borrower (or student, in the case of Parent Direct PLUS Loans) is enrolled at least half time and for an additional six months after a student ceases to be enrolled at least half time. Grad Direct PLUS Loans will receive these deferments automatically. Parent Direct PLUS Loans will only be granted this deferment upon the request of the parent borrower.

Federal Direct Consolidation Loans (**Direct Consolidation Loans**) allow borrowers to combine one or more federal education loans into one new Direct Loan requiring only one monthly payment. All Direct Loans (Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans) can be consolidated. Even if a borrower consolidates more than type of loan, the borrower still has only one Direct Consolidation Loan and makes only one monthly payment, though the borrower and school will see separate entries for the separate components of the Direct Consolidation in most systems, e.g., NSLDS.

Direct PLUS Loans

All students who receive PLUS funds must complete a FAFSA, whether they are graduate student PLUS borrowers or dependent undergraduates who will receive the funds via their parents.

Before originating a PLUS Loan application for a graduate or professional student, a school must determine her eligibility for a Stafford loan. If the student is eligible for a Stafford loan but has not requested the maximum amount she can receive, the school must notify her of that and give her the opportunity to request the maximum amount. The school must also provide the student with a comparison of:

- ♦ the maximum interest rate for Stafford and PLUS Loans;
- ♦ the periods when interest accrues on Stafford and PLUS Loans; and
- ♦ when Stafford and PLUS Loans enter repayment.

A graduate or professional student is not required to accept a Stafford loan as a condition for receiving a PLUS Loan, nor can a school require that.

Unless the borrower has received a FFEL or Direct PLUS Loan before, a school must conduct initial loan counseling prior to the first disbursement of a graduate/professional PLUS Loan. Loan counseling requirements do not apply to parent PLUS borrowers.

Determination of Stafford eligibility required

34 CFR 685.301(a)

Parents and graduate/professional students apply for a PLUS Loan by completing the PLUS application and master promissory note. All PLUS borrowers must receive the Borrowers' Rights and Responsibilities Statement with the loan application.

At U.S. domestic schools, a parent may obtain for a dependent student additional PLUS Loans based on the original MPN for up to 10 years after the date the parent first signed it, as discussed in the previous section on the multiyear use of the MPN. A separate PLUS MPN is required for each dependent student or if both parents want to borrow individually on behalf of the same student. A new PLUS MPN would be required under the conditions discussed in the section on when a new MPN is required. A graduate or professional student PLUS borrower may also obtain additional loans under the original MPN for up to 10 years after the date it was signed.

Because a parent or graduate/professional student may borrow up to the student's cost of attendance minus other estimated financial assistance for the loan period, it is important that the borrower specify how much he wants to borrow. A PLUS Loan may not be made for more than the borrower requests.

Your school must collect this information before originating the PLUS Loan and may use various means such as a borrower response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests, or other means.

You must establish and document how a PLUS borrower's loan amount request will be collected. You also must maintain a record of any requests (written, electronic, or by phone) from the borrower for any adjustment to the loan amount.

The Direct PLUS Loan Request feature on the StudentLoans.gov website allows both parents and graduate/professional students, to request a PLUS Loan and initiate a credit check. It can take the place of a school-based process. Borrowers can request the amount that they wish to borrow or choose to have the school determine the maximum amount they are eligible to receive. This process is optional; schools can choose not to allow it or to allow it for parent or student borrowers only. But a school using this process will meet the active confirmation requirement. See the electronic announcement dated April 23, 2010, on the IFAP website for more information.

Before originating a parent PLUS Loan, you must determine the FSA eligibility of the dependent student for whom the parent is borrowing, and you must obtain the student's complete financial aid history. A parent may not take out a PLUS Loan when the student is ineligible for FSA funds or when the parent herself is ineligible. Also, when originating a parent PLUS Loan, you must certify the student's enrollment status and anticipated completion/graduation date.

When a Grad Plus borrower is also a parent PLUS borrower

If a graduate or professional student PLUS borrower is also a parent who is obtaining a PLUS Loan for one or more dependent students, he or she must sign one MPN for herself and a separate MPN for each dependent student.

Increased Unsubsidized Stafford for independent students and dependent students whose parent can't get PLUS

If at least one of a dependent student's parents has not been able to obtain a PLUS Loan, the student may be eligible for higher Direct Unsubsidized Stafford Loan borrowing limits. See *The Federal Student Aid Handbook, Volume 3*.

Adverse Credit History

When determining whether a borrower is ineligible for a PLUS Loan based on an adverse credit history, the Department obtains a credit report on the borrower from at least one national credit bureau. Adverse credit is defined in the regulations as the applicant being 90 days or more delinquent on a debt or having been subject in the last five years to a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment or write-off of an FSA debt. The absence of any credit history is not considered adverse credit.

Your school must confirm the student's dependency status when determining whether a parent is eligible to borrow under the Direct PLUS Program or the dependent student is eligible for additional Direct Unsubsidized Loan limits.

Adverse credit history and use of endorser

To qualify for a PLUS Loan, a person must not have an adverse credit history, but if he has such a history, he may still receive a PLUS Loan by using an endorser who does not have an adverse credit history. In these cases, a separate endorser addendum is required for each PLUS Loan. Any loan that requires an endorser must be made under a new PLUS MPN with a new endorser addendum because the endorser is liable only for the specific loan or loans she agrees to endorse. The addendum includes the requested loan amount; if the parent borrower wants to increase that amount, the endorser must approve it, and it requires a new MPN and endorser addendum.

THE PROMISSORY NOTE

To receive a Direct Loan, a student (or parent) must complete a Master Promissory Note (MPN). In the traditional paper process, the MPN will be printed by the school and the borrower signs a copy and returns it to COD or the school, as appropriate. The borrower gets a copy, and the school may keep a third copy on file if it chooses to do so. If the school receives the signed MPN, the school forwards the MPN to MPN processing.

Schools also have the option of participating in the electronic Master Promissory Note process (e-MPN). Students (or parents, if applicable) interested in an e-MPN should go to the Department's e-MPN Web site (<https://studentloans.gov/myDirectLoan/index.action>) where they can complete, electronically sign (with their federal student aid PIN) and print a copy of the note. They can also return later to view an already executed e-MPN. Borrowers should only sign an e-MPN if the school they will be attending participates in the electronic Master Promissory Note process. Access to the StudentLoans.gov website requires a PIN. Borrowers can obtain Federal PINs by completing the Federal PIN process at <http://pin.ed.gov>.

A student attending a school that participates in the e-MPN process has the option of requesting that a paper MPN be created and printed for his or her signature. If a student requests a paper MPN, the school **must** provide one. (See chapter 2 for more on the MPN Process.)

THE DISCLOSURE STATEMENT

The law requires a disclosure statement, providing loan-specific information to be sent to all borrowers by the lender. Before or at the time of the first disbursement of the proceeds of a Direct Loan, COD will send a disclosure statement that provides borrowers with information about the –

- ♦ types of loans,
- ♦ anticipated loan disbursement amounts,
- ♦ loan fee rates,
- ♦ the amount of the borrower's loan fee,
- ♦ anticipated disbursement dates, and
- ♦ anticipated net disbursements.

In general, COD prints the disclosure statement and sends it to a borrower at his or her permanent address before the first anticipated disbursement date reported on the loan origination record for each loan made by the borrower. Borrowers can opt to receive electronic correspondence. If a borrower opts for electronic correspondence, COD does not send an electronic copy of his/her disclosure statement, rather COD notifies the borrower via an email that his electronic disclosure statement is available for viewing or downloading on StudentLoans.gov

Borrowers make the selection at

<https://StudentLoans.gov>.

Even if loan origination records for a student's Direct Subsidized Loan and Direct Unsubsidized Loan arrive in COD on different days, COD sends a single disclosure statement if –

- ♦ both loans have the same first anticipated disbursement date; and
- ♦ both loan origination records were processed before the first anticipated disbursement date for the loans and the disclosure statement for the first disbursement has not been sent.

In addition, a school may also provide disclosure statements. If a school chooses to print disclosure statements, the school must also provide a Plain Language Disclosure (PLD). A school may send a disclosure statement on or before the anticipated disbursement date. It must provide the disclosure statements no later than the date it makes the first disbursement of Direct Loan funds.

Borrower's Rights and Responsibilities (BRR) Statements

The BRR described is required under the HEA. The BRR provides additional information about the terms and conditions of the loans a borrower receives under the Master Promissory Note (MPN) for Federal Direct Loans. Sample BRRs are available at

<http://www2.ed.gov/offices/OSFAP/DirectLoan/pubs/dlrights.pdf>

Consumer Information for Borrowers

First-time borrowers must be fully advised on the costs and responsibilities of borrowing.

Accordingly, the law requires that borrowers receive the following information at the following times:

- At the same time as the MPN, a Statement of Borrower's Rights and Responsibilities.
- At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans is provided electronically by COD.
- For any subsequent loans provided under an existing MPN, a "Plain Language Disclosure (PLD)" developed by the Department.

Required Disclosure Format

A school that chooses to provide disclosure statements must use the same format and provide the same information on the disclosures provided by COD. You can find in the COD Technical Reference at

www.fsadownload.ed.gov/docsStudentAidGateway.htm

on Page II-1-83 through Page II-1-85

and in the attachments on Page VI-7-3 through Page VI-7-18 and Page VI-7-36 through Page VI-7-44.

The Plain Language Disclosure (PLD)

A PLD supplements the Borrower's Rights and Responsibilities Statement (BRR) that accompanies a borrower's MPN. A PLD is provided to students (and parents borrowing on behalf of students) who attend schools that use the multiyear feature of the MPN. Since borrowers at these schools don't sign a new promissory note for each loan, a PLD is forwarded with each disclosure statement to remind Direct Loan borrowers of their rights and responsibilities.

SCHOOL RESPONSIBILITIES

A school's responsibilities in the Direct Loan Program begin with meeting and maintaining loan program participation requirements. Operational requirements can include:

- ◆ confirming borrower eligibility;
- ◆ originating Direct Loans;
- ◆ counseling students;
- ◆ requesting Direct Loan cash;
- ◆ disbursing Direct Loan cash;
- ◆ reconciling school-based Direct Loan records with records in ED's Direct Loan database;
- ◆ carrying out administrative and fiscal management functions; and
- ◆ closing out each award year.

CONFIRMING BORROWER ELIGIBILITY

Before Direct Loan funds may be disbursed, your financial aid office must confirm a borrower's general eligibility for FSA funds and the borrower's general eligibility for a Direct Loan as described in the *Federal Student Aid Handbook, Volume 1*.

A student borrower must also demonstrate financial need to receive any FSA funds except Direct Unsubsidized and Direct PLUS Loans. (See the *Federal Student Aid Handbook, Volume 3* for more information.)

TIP

While the business office does not usually report changes in enrollment status and borrower information to ED, when it becomes aware of such changes, it must provide them to the school's "Coordinating Official" as described in *Volume 1*, under *Administrative Standards*, so that the school office with the reporting responsibility can be informed.

Borrower eligibility

34 CFR 685.200

THE CONFIRMATION PROCESS

Borrower confirmation

A crucial step in multiyear use of the MPN is the confirmation process that takes the place of the previous requirement that the borrower sign a new note for each academic year. Schools must develop and document a confirmation process to ensure that a borrower wants subsequent loans. The confirmation process may be part of the required notices and disclosures that already exist, or it may be separate and supplement them.

For Direct Subsidized and Unsubsidized Loans, a student must accept, either actively or passively (i.e., through notification), the loan amount offered. For Direct PLUS Loans, a borrower (parent or student) must actively accept the loan amount.

TIP

Active confirmation – a school does not disburse the loan until the borrower accepts the proposed loan type and amount or requests changes to the proposed loan package.

Passive confirmation – school does not disburse the loan until the borrower is notified of the proposed loan package. The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may include proposed loan amounts and types. For active confirmation, the student would be asked to accept the loan amount offered by responding to your school's offer. For passive confirmation, the student would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

Establishing a confirmation process

As long as regulatory requirements and the Department's guidelines are met, schools are free to establish their own confirmation process—perhaps even a process that combines elements of active and passive confirmation. Schools have considerable discretion in setting up these processes, including the timing of confirmation.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are disbursed, or at some other appropriate time.

See *Volume 5* for a description of the notices a school must provide before disbursing Direct Loans.

The most effective processes will likely vary from school to school, and participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, smart card technologies, and voice response.

Documenting Confirmation

Your school must document its confirmation procedures. This description of the process may be kept in paper or electronic format and need not be kept in individual borrower files.

The documentation must be kept indefinitely because it must be submitted to ED, upon request, if a borrower challenges the enforceability of a loan. Schools should include a description of the confirmation process in their student consumer information just as they do for other school policies, such as refunds and academic progress.

More information on confirmation processes

EA 2011-03-08, EA 2011-16-09 and EA 2010-23-04 provide examples of different methods of confirmation. Participants are encouraged to use and test various technologies in this process.

TIP

The Department recommends that schools include a description of the confirmation process(es) in their student consumer information just as they do for other school policies, such as refunds and academic progress.

Generally, it is easier to manage confirmation if your school uses one confirmation process for all borrowers. However, in some cases, a school may want to establish more than one confirmation process in order to accommodate existing administrative procedures or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students.

Regardless of the process(es) used, schools must document their confirmation procedures. A school must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely because it must be submitted to ED upon request if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information and policies and procedures manuals just as they do for other school policies, such as their school refund and satisfactory academic progress policies.

ORIGINATING DIRECT LOANS

Once your financial aid office determines a student is eligible to receive a Direct Loan at your school, that office (or your school's servicer) will submit award (origination data) and disbursement data to the COD system.

Your school can originate Direct Loan awards as soon as the year's COD system software is active. When your school originates an award, it will submit either *anticipated* or *actual* disbursement data. Note that the disbursement amount, anticipated or actual, must equal the loan amount or the origination will be rejected. A school that is submitting anticipated data will set the Disbursement Release Indicator (**DRI**) to False (False is the default setting). When a school wants to submit actual disbursements, it must set the DRI to True.

Schools can change disbursements from anticipated to actual up to seven days before the disbursement date. Schools have 15 days after disbursing funds to report disbursements as actual. To change anticipated disbursements to actual disbursements, a school first verifies the dates and amounts are correct, and then sets the DRI to *True*.

Deadline for submitting disbursement records is changing

For disbursements (or adjustments to previously made disbursements) made prior to April 1, 2013, a school had 30 days to submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records, as applicable, after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

For disbursements (or adjustments to previously made disbursements) made on or after April 1, 2013, a school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

COUNSELING STUDENTS

The purpose of loan counseling is to help educate borrowers about the terms and conditions of their loans and the importance of repaying their loans and avoiding default. A school must ensure that first-time Direct Subsidized/Unsubsidized and first-time Direct Grad PLUS borrowers have completed entrance counseling before disbursing Direct Loan funds to those borrowers.

All Direct Subsidized/Unsubsidized and Grad Direct PLUS borrowers are required to complete exit counseling when they leave school or drop below half-time enrollment.

It is your school's choice to offer counseling through the school, or require students to complete ED's online counseling at the Direct Loan Direct Loan Student site.

<https://StudentLoans.gov>.

A school must have a process for ensuring that borrowers have completed ED's online counseling. If your school uses ED's Online counseling, you will receive confirmation that the student has completed counseling through COD.

If your school conducts its own counseling sessions, you may want to order copies of the Entrance and Exit Counseling Guides for Direct Loan Borrowers. These guides include information about the student's options for repayment, including repayment plans and conditions for forbearance, deferment, and cancellation. You can find a discussion of entrance and exit counseling in chapter 6.

TIP

If counseling is conducted by electronic means, the school must take reasonable steps to ensure that each student borrower receives the counseling materials and participates in and completes the counseling.

In extenuating circumstances, certain borrowers may complete exit counseling via written counseling materials.

See 34 CFR 685.304(9)(2) and 685.304(9)(3) for further explanation.

ED's Entrance and Exit Counseling Guides for Direct Loan Borrowers must be ordered from the U.S. Department of Education via FSA Pubs.

Schools can do this in any one of the following ways:

Web: www.FSApubs.org
Telephone: 1-800-394-7084
E-mail: orders@fsapubs.org

Funding methods

Cite: 34 CFR 668.162, except as noted.

Receiving Funds Under Heightened Monitoring

After the 2012–2013 award year, schools that receive funds under the Reimbursement, Heightened Cash Monitoring 1 (HCM1), or Heightened Cash Monitoring 2 (HCM2) funding method will not receive an initial authorization of Direct Loan funds. After the 2012–2013 award year, those schools will receive an authorization for Direct Loan funds after the COD System has accepted and posted actual disbursement records.

DRAWING DOWN FUNDS IN THE DIRECT LOAN PROGRAM

Generally, schools under the advanced payment method receive an initial Direct Loan authorization in late spring or early summer prior to July 1. Initial authorizations are based on a school's net accepted and posted disbursements from the previous award year.

As a school submits actual Direct Loan disbursement records, the COD System will track the total accepted and posted amount against the school's authorized amount. Each time the school's total net accepted and posted disbursements exceed the school's authorization, the COD system will give the school an automatic authorization increase up to the level of the school's net accepted and posted disbursements. (See *Volume 5* for a discussion of the various ways the Department provides funds to schools.)

SUBMITTING ACTUAL DISBURSEMENT RECORDS

Most schools may submit disbursement data with the DRI set to *True* up to seven days in advance of the intended disbursement date. Note that before COD will accept a record with the DRI set to *True*, there must be an accepted and linked MPN on file in COD System.

Schools operating under the Reimbursement or HCM2 monitoring methods may not submit disbursement records before the disbursement date. These schools will receive funds when – (1) the school has made disbursements using the school's own fund; and (2) the FSA Payment Analyst (PA) has reviewed and accepted the required documentation, and released disbursement records.

TIMING DRAWDOWN REQUESTS

You should time the submission of your request for Direct Loan funds to ensure that they will be disbursed within the three business days allowed under the cash management regulations. The chart that follows shows when a school can expect to receive requested funds.

If a School Submits a Request	The School Receives Funds
By ACH/EFT before 3 p.m. Eastern Time	On the next business day
By ACH/EFT after 3 p.m. Eastern Time	On second business day
By FEDWIRE before 2 p.m. Eastern Time	On the same business day
By FEDWIRE after 2 p.m. Eastern Time	On the next business day

REQUESTING DIRECT LOAN CASH

Schools that receive funds through the advanced payment method request funds directly through G5. In general, the amount of a school's authorization in COD will equal the maximum it can draw through G5. As a school submits and COD accepts actual disbursement data, the school's authorization will increase, and its funding in G5 should increase as well.

In addition to sending in actual disbursement data, a school can request an increase by requesting it through their COD Customer Service Representative (CSR). If the school has sufficient originations on the system to justify the increase, and it has no outstanding unsubstantiated funds for any previous year, the CSR will facilitate the increase.

Schools placed on the HCM2 and Reimbursement payment methods do not request funds from G5. Funds are requested on their behalf by payment analysts after their documentation has been reviewed and disbursement records have been released from the COD Action Queue.

Estimating drawdown requests

Before requesting Direct Loan funds, the business office should reconcile (on a student-by-student basis) the Direct Loan disbursements it anticipates making with the Direct Loan disbursements expected by the Financial Aid Office for the same period. Then, following procedures like those suggested in *Volume 5* under *General rules for projecting cash needs*, the school will request the funds it needs to make disbursements to its Direct Loan borrowers.

Questions you might want to consider before submitting your drawdown request and that might affect the amount of Direct Loan funds that you draw down include:

1. If your school requests funds based on anticipated disbursements, does this often result in excess cash (funds the school doesn't disburse that have to be returned to ED)?
2. If your school requests funds on the basis of actual disbursements, does *fronting* its own funds until ED forwards the Direct Loan funds put the school in a difficult cash flow position?
3. Does your school look at its historical trends? For example,
 - Does your school compare how much it requests to how much it actually spends?
 - How much did your school request last year at this time?
 - Was the request sufficient to cover actual disbursements?
 - Was the request more than your school needed to cover disbursements?
4. Does your school often have to return funds because students withdraw within a few weeks of registration?

RECEIVING DIRECT LOAN CASH

Schools receive funds when G5 forwards a payment request to the Federal Reserve System. The Federal Reserve System will then wire the funds to the bank account the school has designated to receive FSA funds.

As described in *The Federal Student Aid Handbook, Volume 2*, a school is allowed to use a single bank account for all FSA funds, including Direct Loan funds as long as the school can identify and keep track of the funds belonging to the Direct Loan Program. However, ED recommends establishing a separate federal bank account to receive Direct Loan funds. (A separate bank account makes it easier for a school to keep track of and reconcile Direct Loan funds.)

On occasion, the transmission wiring Direct Loan funds to a school does not go through. These are called *unsuccessful transmissions*. Transmissions are unsuccessful when there are technical difficulties, or when a school changes its designated bank account without informing ED.

If a school changes its designated bank account or the account is closed, the school must submit an updated SF1199A (direct deposit form) to ED. The school will not be able to receive additional FSA funds until it submits and ED receives the updated SF1199A.

Schools can obtain the SF1199A form from their bank(s) or they can contact the G5 hotline by phone at

1-888-336-8930 (TTY: 202-401-6238)

or by email at

edcaps.user@ed.gov

to request the form.

The Department contacts a school whenever it experiences a problem wiring Direct Loan funds.

Disbursements

34 CFR 668.164(b)

34 CFR 685.301(b)

34 CFR 685.303(b)

Sec. 428G(a) of the HEA

**It's not a loan from ED until it's booked**

A booked loan is one that is a legal binding obligation between the borrower and the U.S. Department of Education.

A loan is considered booked when the COD System has accepted

1. the loan origination record
2. a Master Promissory Note linked to that origination (the identifiers for the borrower match on the MPN and the COD common record), and
3. the first actual disbursement record for that loan ID.

Booking of PLUS and Grad PLUS Loans also require that an accepted credit decision be on file in the COD System.

The COD 30-day Warning Report

contains information on loans a school anticipates making between 120 days before the anticipated disbursement dates through 30 days following those dates.

Awards with anticipated disbursements will be removed from the report 30 days after the anticipated disbursement date unless an actual disbursement is received from the school.



A school can also use "Disbursement Acknowledgments" (also known as Disbursement Responses) received from ED to identify and help resolve unbooked loan issues. These provide information on whether records have been accepted or rejected. If rejected, a reject reason code is provided that will enable the school to research the issue, correct the transaction, and resend the data.

DISBURSING DIRECT LOAN CASH

Be sure to review Volume 5 for a discussion of the general disbursement requirements for all FSA programs.

After receiving the loan funds from the Department, you will disburse the funds by crediting them to the student's account to pay school charges and/or paying the student directly.

Internal controls and disbursing Direct Loan cash

Your school should have a process for ensuring that it does not unknowingly disburse funds to borrowers whose loans are unbooked. Until ED has accepted an origination record, a Master Promissory Note linked to that origination, and an actual disbursement (Disbursement Release Indicator (DRI) set to True), the loan is unbooked and a school is liable for any funds it has disbursed. If your school chooses to disburse funds and submit the information to ED after the disbursement is made, then your school should have a system for identifying unbooked loans and resolving them.

The Department provides a report to schools that may assist in the identification of unbooked loans—the **30-Day Warning Report**. The 30 Day Warning Report provides information regarding any element needed by ED to book loans that have been originated: a promissory note, and/or an initial disbursement (and accepted credit check for Direct PLUS Loans). The report also provides a list of any accepted MPNs that have not been linked to an award.

The report may be used to identify the component needed to book the loan. For more information, refer to the COD Technical Reference for the applicable award year (available at www.fsadownload.ed.gov).

For example, you could compare a list of those students to whom you have disbursed Direct Loan funds to the *Direct Loan 30-day Warning Report* and note those students for whom ED had not yet accepted a disbursement record. If you work at a school making only a few Direct loans, you can do this by hand. If your school processes a large number of Direct Loans, you may want to develop an automated computer process that compares this information and provides exception reports.

If, when you make this comparison, you find that you have disbursed funds to students whose disbursement records have still not been accepted, the business office can work with the financial aid office and COD to resolve the outstanding issues and eliminate your school's liability for the disbursed funds.

Reporting disbursements

If your school submits anticipated data with its award data, the Disbursement Release Indicator (DRI) is set to *False* when the COD system receives it. To indicate that the student has received an *actual* disbursement, your school must update the DRI status to *True*, and transmit the updated disbursement information electronically to COD.

Checking eligibility at the time of disbursement

Your financial aid office certified that a student is eligible when it originated the loan. However, **you must also ensure that the student has maintained continuous eligibility before you disburse Direct loan funds.**

The change that most often makes a student ineligible for a disbursement of Direct Loan funds is a reduction in enrollment status to less than half time. Therefore, it is important that your school have a system to verify a student's enrollment status at the time of disbursement. (See the discussion under *If a Student Begins Attendance on a Less Than Half-Time Basis* later in this chapter.)



If a student drops below half time temporarily, you can make disbursements of the loan proceeds if the student resumes at least half-time enrollment. However, you must ensure that the student continues to qualify for the entire amount of the loan (the change in the student's enrollment status may have resulted in a lower cost of attendance). The aid office must document its review of the eligibility of a student whose enrollment changes before funds are disbursed.

In all cases, but especially if a borrower has transferred from another school, you need to ensure that the student is not in default and has not and will not exceed the annual and aggregate loan limits. You can confirm this by checking the student's loan history on the NSLDS website, or by reviewing the NSLDS loan history section of the ISIR, which has information that is current as of the time the ISIR was processed.

When working with transfer students, you must also submit the transfer student's name and identifiers to NSLDS through the *Inform* process, so that NSLDS can notify you of any changes in the student's loan history that might affect eligibility at your school. (See *The Federal Student Aid Handbook, Volume 2 – School Eligibility and Operations*, and *Volume 1 – Student Eligibility* for more information on the Transfer Monitoring Process, and *Volume 3 – Calculating Awards and Packaging* for more information on using the Aggregate Outstanding Principal Balance (Agg OPB) field in NSLDS to determine if a student has exceeded the applicable aggregate loan limits.)

Disbursements to study abroad students

Schools may disburse loans in a single disbursement to a student in an eligible study abroad program when the eligible home institution is originating the loan regardless of the length of the loan period, if your school's most recent calculated cohort default rate is less than 5% for the single most recent fiscal year for which data is available.

Exceptions to 30-day delay

34 CFR 685.303(b)(4)(i)(A), (B), & (C).

A late disbursement of a Direct Loan to a student who was enrolled in a series of modules may be prohibited

A school may not disburse the proceeds of a Direct Loan to an ineligible borrower. Therefore, if a student who was enrolled in a series of modules withdraws before beginning attendance as a half-time student, and the student had not received the first disbursement of a Direct loan before withdrawing, the school may not make the first disbursement because the school knows the student withdrew before beginning half-time attendance. The school may not make a late disbursement because the regulation 34 CFR 668.164(g)(3)(iii) that permits a school to make a late disbursement of a Direct Loan for costs incurred to a student who did not withdraw, but ceased to be enrolled as at least a half-time student, does not apply. (The student never really began attendance in the classes needed to make the student half time.)

Reasons a school might have to return DL funds:

- The student failed to enroll for an enrollment period for which the loan was intended.
- The student failed to meet satisfactory academic progress or other eligibility requirements (for example, completing entrance loan counseling) at the time the loan was due to be delivered.
- The student withdrew during a period for which the loan was intended before the funds were delivered to a student, and the student is not eligible for a post-withdrawal disbursement.
- A return of funds is due to a lender as a result of a return of Title IV funds calculation.
- A student or parent requests a school to return DL Program funds to reduce the borrower's principal loan balance.

Processing Direct Loan funds

If a payment period has elapsed before you make your first disbursement to a student, the disbursement for the next payment period may include the amount that was not disbursed in the completed payment period.

A student in a non-term program must successfully complete coursework in a payment period to be eligible for a disbursement in the subsequent payment period.

Required delay in making disbursements to first-time borrowers – DL funds may be disbursed up to 10 days before classes begin (in most cases). However, as a first-time Direct Loan borrower, your school may not disburse the first installment of the Direct Loan until 30 calendar days after the student's actual attendance in the program of study begins unless:



1. the school in which the student is enrolled has a two-year or three-year cohort default rate of less than 15% for each of the three most recent fiscal years for which data are available; or
2. the school is an eligible home institution originating a loan to cover the cost of attendance in a study abroad program and has a Direct Loan Program cohort default rate or weighted average cohort rate of less than 5% for the single most recent fiscal year for which data are available.

Disbursement rules for terms made up of modules – Sometimes students enrolled in a modular program do not attend classes in the first module. The start date for disbursement purposes is the date classes begin for the first attended module. For example, the earliest the school can disburse Direct Loan funds to a first-year, first-time borrower who is scheduled to begin attendance in the second of three 5-week modules that make up the payment period is 30 days after the second module begins.

Late disbursements – If the student established eligibility for payment, and you originated the loan, but the student later becomes ineligible (because the student is no longer enrolled at the school as at least a half-time student for the loan period), you may still be able to make a late disbursement to the student. However, if the student never began attendance at least half time, the student cannot receive a late disbursement because the student never established eligibility for the Direct Loan. Please see *Volume 5* for a discussion of the conditions for and limitations on late disbursements.

PAYMENT PERIODS

The definition of a payment period is applicable to all FSA programs except FWS. The common definition is integral to requirements for the administration of FSA funds. For example, FSA program disbursements (except FWS payments) must be made on a payment period basis. Another example is that a student's satisfactory academic progress (SAP) evaluation is required to correspond with the end of a payment period.

For clock-hour programs, the payment period is defined not only in clock-hours but also in weeks of instructional time. A student must successfully complete the clock-hours and weeks of instructional time in a payment period to progress to the next payment period.

For Direct Loans, the payment period for clock-hour programs, non-term credit-hour programs, and nonstandard term programs with terms not substantially equal in length are defined in clock or credit-hours and weeks of instructional time (as has been the case for the other FSA programs). Previously for such programs, second disbursements in loan periods were based on the calendar midpoint of the academic year. A student must successfully complete the clock-hours and weeks of instructional time in a payment period to progress to the next payment period (as has been the case for annual loan limit progression and for grant and Perkins Loan payment period progression in clock-hour and non-term credit-hour programs).

For FSA purposes, you will use either "term-based" payment periods (the payment period is the term), or payment periods based on the completion of credit or clock-hours and weeks of instructional time. The payment period you use depends on the kind of academic calendar your school uses, as described below, and the FSA program for which you are disbursing funds.

Programs using standard terms or substantially equal nonstandard terms (term-based)

For credit-hour programs that use standard terms, or that use nonstandard terms that are substantially equal in length (see sidebar), the payment period is the term itself. For Direct Loans, these terms must be at least 9 weeks in length, or the term is treated as non-term.

Programs with nonstandard terms not substantially equal in length

For purposes of Pell Grants, TEACH, FSEOGs, and Perkins Loans, if the program uses nonstandard terms, the payment period is the term. This includes terms that are not substantially equal in length.

For Direct Loans, if a credit-hour program has nonstandard terms that are not substantially equal in length, use the non-term payment periods described in *Clock-hour programs and non-term programs*.

Payment periods

34 CFR 668.4

For a complete treatment of Payment Periods, see *The Federal Student Aid Handbook, Volume 3*.

Two payment period limit in an academic year or program

Unless you are using terms as payment periods under FSA rules, there are no more than two payment periods in the lesser of the program, the academic year, or the remainder of the program.

You may make multiple disbursements within a single payment period; however, schools should note that making multiple disbursements within a payment period does not create a new or additional payment period.

"Successfully Completes"

34 CFR 668.4(h)(2)

A student "successfully completes" credit or clock-hours if your school considers the student to have passed the coursework associated with those hours.

"Substantially Equal in Length"

34 CFR 668.4(h)(1)

For purposes of measuring payment periods in programs offered in nonstandard terms, "substantially equal" means that no term in the program is more than two weeks of instructional time longer than any other term in that program. "Not substantially equal in length" means nonstandard terms that have at least one term more than two weeks of instructional time longer than another in the same program.

Direct Loan payment periods for graduate/professional students (clock-hour, non-term, etc.)

For a graduate or professional student in a clock-hour or non-term program, or a program with terms not substantially equal in length, the Direct Loan payment period is 1/2 of what a full-time student would be expected to complete, in both weeks of instructional time and credit or clock-hours. This policy also relates to annual loan limit progression for graduate or professional students (for more on loan limits, see *The Federal Student Aid Handbook, Volume 3*).

Unable to determine completion of hours in payment period

34 CFR 668.4(c)(3)

If your school is tracking progress by clock or non-term credit-hours and is unable to determine when a student has successfully completed half of the credit or clock-hours in a program, academic year, or remainder of a program, the student is considered to have begun the second payment period of the program, academic year, or remainder of a program at the later of the date (identified by the school) that the student has successfully completed:

1. half of the academic coursework in the program, academic year, or the remainder of the program; or
2. half of the number of weeks of instructional time in the program, academic year, or the remainder of the program.

Clock-hour programs with terms

The payment periods for clock-hour programs that use terms are determined in the same way as for non-term clock-hour programs. The student must successfully complete all the clock-hours in the payment period before receiving any more FSA funds. If a student doesn't complete all the hours scheduled for a term, each payment period still contains the number of clock-hours originally scheduled, even if this means that none of the student's succeeding payment periods coincide with the terms.

Clock-hour and non-term programs

The following types of programs must use payment periods that are based on the time it takes for the student to successfully complete the credit or clock-hours and weeks of instructional time in the payment period:

- ♦ Non-term credit-hour programs
- ♦ Clock-hour programs
- ♦ For Direct Loan purposes, nonstandard term credit-hour programs with terms not substantially equal in length

If you are determining the payment periods for a program for which one of the measures (either clock or credit-hours or length of instructional time) is less than an academic year and the other measurement is not, the program is considered less than an academic year in length, and you follow the payment period rules for a program that is less than an academic year.

If the program is one academic year or less, the academic year or program is divided into two payment periods. The first payment period is the period in which the student successfully completes half of the credit or clock-hours AND half of the weeks of instructional time in the program. The second payment period is the period in which the student completes the remainder of the program.

If the program is more than one academic year in length:

- ♦ Use the rule for one academic year (above) for each full academic year in the program.
- ♦ For any remaining portion of a program that is half of an academic year or less, the remaining portion is treated as a single payment period.
- ♦ For any remaining portion of a program that is more than half of an academic year but less than a full academic year, the remaining portion is divided into two payment periods and the first payment period is the period in which the student successfully completes half of the credit or clock-hours AND half of the weeks of instructional time in the remaining portion.

Progression based on completion of hours and weeks (rather than term-based progression)

As described in the previous section, there are two cases where you must use credit or clock-hours and weeks of instructional time to determine the length of the payment period:

- ♦ clock-hour and non-term credit-hour programs; and,
- ♦ for Direct Loans, programs with terms not substantially equal in length.

For these programs, each subsequent payment period cannot begin until the student successfully completes the credit or clock-hours and weeks of instruction in the previous payment period.

Except for a second or subsequent loan period in Direct Loans, if a student completes additional weeks of instructional time or hours while completing the other measure of a payment period, these additional weeks or hours count towards completing the next payment period. For Direct Loans, the first payment period of a second or subsequent loan period includes only the weeks of instructional time and hours that begin on the first calendar day of the new loan period.

Clock-hour payment period progression and weeks of instructional time

Payment period progression in clock-hour programs requires that the student complete both the clock-hours and weeks of instructional time.

Completion requirements

Payment periods: 34 CFR 668.4
 Pell Grants: 34 CFR 690.75(a)(3)
 Direct Loans: 34 CFR 685.301(b) and (b)(6)
 TEACH: 34 CFR 686.11
 Excused absences: 34 CFR 668.4(e)

Direct Assessment Program Payment Periods

34 CFR 668.10, Dear Colleague Letter GEN-13-10

Because Direct Assessment programs don't use credit or clock-hours as measures of learning, you must establish a method to reasonably equate the Direct Assessment program (or Direct Assessment portion of any program) to credit or clock-hours for the purpose of determining the payment periods in the program. You must provide a reasonable written description that supports your claim that the program or portion of a program is equivalent to a specific number of credit or clock-hours (note that any credits awarded for "life experience" are not counted for FSA purposes).

Once you have established credit or clock-hour equivalencies, Direct Assessment program payment periods are measured in the same manner as other programs, according to the payment period rules described earlier in this chapter.

Disbursement timing

Disbursement by payment period
34 CFR 668.164(b),
HEA Sec. 428G(a)

Early disbursements
34 CFR 668.164(f)

30-day delay for first-time borrowers
34 CFR 685.303(b)(4)

Disbursement of second & subsequent
disbursements
34 CFR 685.301(b)(3)

Disbursement by payment periods

The Cash Management Regulations specify that a school must disburse all FSA grant and loan funds on a payment period basis. For all types of programs other than FWS, FSA funds are disbursed using the payment period definitions in 34 CFR 668.4.

TIMING OF DISBURSEMENTS—GENERAL RULES

Except for Federal Work-Study (FWS) wages, FSA disbursements are made on a payment period basis. The timing of disbursements is especially important for Pell and TEACH Grants and Direct/Direct PLUS Loan funds because you must report disbursement dates to the Department (through the COD system).

Basic rules for early and delayed disbursements

In general, the earliest that a school may disburse FSA funds by crediting the student's account or by paying directly to the student or parent is 10 days before the first day of classes for that payment period.

For credit-hour non-term and clock-hour programs, the earliest a school may disburse FSA funds (other than FWS wages) is the later of:

- 10 days before the first day of classes for that payment period; or
- the date the student completed the previous payment period for which he or she received FSA funds.

This disbursement timing limitation is also applicable to Direct Loan and Direct PLUS Loan disbursements in credit-hour programs with non-standard terms that are not substantially equal in length. In some cases, as we'll discuss, other restrictions apply.

If a student is in the first year of undergraduate study and is a first-time Direct Loan borrower, your school may not disburse the first installment of the Direct loan until 30 calendar days after the student's program of study begins. You are not required to delay disbursement for such students if you have a cohort default rate of less than 15% for each of the three most recent years for which data are available or if you are a home institution originating a loan to cover the cost of attendance in a study abroad program and have a cohort default rate of less than 5% for the single most recent year for which data are available.

If a student is scheduled to begin class in a module of a term-based program that starts after the first day of classes for the semester, you may not make the initial disbursement until 10 days before the start of the first module in which the student is scheduled to begin attendance. Also, if you post a credit to a student's account before the earliest date permitted by regulation, the date the FSA funds are considered to be disbursed is the earliest date permitted by regulation.

Retroactive disbursements for completed periods

Your school must pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, in the case of a Pell Grant, if you don't receive a valid SAR/ISIR for a student until the spring term but the student was also enrolled and eligible for a disbursement in the previous fall term, that student must be paid retroactively for the fall term.

If you are paying a Pell or TEACH Grant for a completed term in which no disbursement has been made, the *grant must be based on the hours completed by the student for that term*. If the student had enrolled full time at the beginning of the fall term but dropped to half-time status by the end of the term, the retroactive disbursement must be based on half-time status. At a term school, all completed coursework counts towards enrollment status, including earned F's and incompletes that have not converted to "F" grades because the student failed to complete the course work.

For Direct Loans, a student may be eligible to receive loans for all periods of the loan period, unless the student was ineligible for the prior pay period due to failure to meet SAP standards, in which case the student may not receive Direct Loan funds for the prior period(s) in which they did not meet SAP requirements. *To include an earlier period of eligibility when originating a Direct Loan, the student also has to have completed at least a half-time course load in that period.* For instance, you could include the fall term and its costs when originating a loan for the student in the spring, if your school's half-time standard is six credit hours and the student received a "B" and an incomplete in two three-hour courses taken that fall.

In the case of loans disbursed on a payment period basis, if a student attended the previous payment period but did not maintain eligibility for a Direct Loan, you may not include the previous payment period or its costs in the loan period.

A school can make the retroactive disbursements in one lump sum.

Multiple disbursements within a payment period

FSA regulations generally permit schools to pay FSA funds at such times and in such installments *within* each payment period as will best meet students' needs. This gives schools the ability to apportion the payment if doing so will be in the best interest of the student. For example, if a payment period is particularly long, a school might choose to pay in multiple installments to the extent program requirements permit, to ensure that a student will have funds to pay rent later in the payment period.

Multiple loan disbursements within a payment period

A school may schedule multiple disbursements *within* a payment period, as long as the disbursements in a loan period are substantially equal.

However, for non-term and clock-hour programs, a school may not elect to have more than two payment periods per loan.

Schools that use payment periods as the basis for their Return of funds calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period. See Volume 5 to see how to perform withdrawal calculations when making multiple disbursements.

Exceptions to the multiple disbursements requirement

There are **four** significant exceptions to the multiple disbursement requirement:

1. If any payment period has elapsed before you make a disbursement, you may make a single disbursement for all completed payment periods.
2. If a loan is not disbursed by payment periods (i.e., terms), and the student has reached the calendar midpoint and successfully completed one-half the hours in the loan period, you may make a single disbursement.
3. You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period, if your school's most recently calculated cohort default rate is less than 5% for the single most recent fiscal year for which data is available.
4. Schools with cohort default rate of less than 15% for each of the three most recent fiscal years for which data is available, including foreign schools, may disburse, in a single disbursement, loans that are made for one semester, trimester, quarter or four-month period.

Interim Disbursements

34 CFR 668.58—Interim disbursement options

34 CFR 668.59—Consequences of change in FAFSA information

Also bear in mind that FSA funds must be provided to students in a timely manner to best assist them in paying their educational expenses. Consequently, a school may not delay the disbursement of funds until after the 60% point, for example, to avoid performing a Return of Title IV Funds calculation and the requirements that go along with it or to prevent the student from having to return funds upon withdrawal.

INTERIM DISBURSEMENTS

Under certain limited circumstances, you may make interim disbursements to students. If you have no reason to believe that an applicant's FAFSA information is incorrect, *prior to verification*, you may do the following:

1. Make one Pell, Perkins, or FSEOG disbursement for the applicant's first payment period;
2. For FWS, employ or allow another entity to employ the applicant, once he/she is an eligible student, for the first 60 consecutive days after the student's enrollment in the award year; or
3. Originate a Direct Subsidized Loan *but not disburse the loan funds*.

If, after verification, and ensuring that you've addressed any corrections (in accordance with the regulation on the consequences of changes in FAFSA data, 34 CFR 668.59), none of the changes to the applicant's FAFSA data will result in a change in the amount he is eligible to receive under any Title IV program, you may take any of the three actions noted above, as well as disburse a Direct Subsidized Loan prior to receiving the corrected valid SAR or ISIR.

DIRECT/DIRECT PLUS LOAN DISBURSEMENTS

Standard terms and substantially equal nonstandard terms at least nine weeks in length (SE9W)

If the program uses *standard academic terms* (semesters, trimesters, or quarters) or it has *nonstandard terms of substantially equal length*, at least one disbursement must be made in each term in the loan period. A program is considered to have substantially equal terms if no term in the program is more than two weeks of instructional time longer than any other term in the program.

If there is more than one term in the loan period, the loan must be disbursed over all terms of the loan period. For example, if a loan period is for an academic year that includes three quarters, the loan must be disbursed in three substantially equal disbursements.

If there is only one term in the loan period, the loan generally must be disbursed in two payments. In a credit-hour program that uses a semester, trimester, or quarter system, or is “SE9W” (see sidebar), the second disbursement may not be made until the student reaches the calendar midpoint between the first and last scheduled days of class of the loan period.

Clock-hour programs, non-term credit-hour programs, and programs with non-standard terms that are not substantially equal

If the program is one academic year or shorter, the loan period is usually the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year.

For each loan period in these programs:

- ♦ The loan must be disbursed in at least two substantially equal amounts, with the first disbursement generally disbursed at or near the beginning of the loan period; and
- ♦ The second half of the loan proceeds may not be disbursed until the student has successfully completed half of the coursework and half of the weeks of instructional time in the loan period.

The payment period for the remainder of a program less than or equal to one-half of an academic year is the remainder of the program.

When a Direct Loan is made for one payment period, the loan must be disbursed in two installments, and the second installment may not be disbursed until the student has successfully completed half the number of credit or clock-hours and half the weeks of instructional time in the payment period.

Direct/Direct PLUS Loan disbursements

Standard terms and terms that are substantially equal in length
34 CFR 668.4(a)

Programs without terms, clock-hour programs, and terms not substantially equal
34 CFR 668.4(b), (c), and (h)(2)

Nonstandard “SE9W” terms

If a credit-hour program has nonstandard terms, the terms are substantially equal in length, and each term is at least nine weeks of instructional time in length, then the terms, for annual loan limit progression purposes, are referred to as “SE9W.”

The length of terms are measured in weeks of instructional time, as defined in *The Federal Student Aid Handbook, Volume 3*. Nonstandard terms are substantially equal if no term in the loan period is more than two weeks of instructional time longer than any other term in that loan period.

For more detail on SE9W terms, see *The Federal Student Aid Handbook, Volume 3*.

Direct Loans for one payment period

34 CFR 685.301(b)(3)(ii)

Low cohort default rate exemptions

Section 428 G (a)(3) and (b)(1) of the HEA,
Direct Loans 34 CFR 685.301(b)(6)

Single disbursements for study-abroad students

34 CFR 685.301(b)(6)(i)(B)

If a borrower is enrolled in a study-abroad program approved for credit by the home school and the home school had a cohort default rate less than 5% in the single most recent fiscal year for which data are available, the school may make a single disbursement of the loan proceeds. Also see the Cohort Default Rate Guide on IFAP.

Exceptions to disbursement rules for schools with low default rates

Schools with cohort default rates of less than 15% for each of the three most recent fiscal years for which data are available, including eligible foreign schools, may disburse, in a single installment, loans that are made for one semester, one trimester, one quarter, or a four-month period. Such schools also are not required to delay the delivery or disbursement of a first disbursement of a loan for 30 days for first-time, first-year undergraduate borrowers.

You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period if your school's most recently calculated cohort default rate is less than 5% for the single most recent fiscal year for which data are available.

When a school that qualifies for the cohort default rate exemption offers:

- ◆ terms not substantially equal in length;
- ◆ non-term credit-hour programs; or
- ◆ clock-hour programs;

the payment period, for purposes of Direct Loan funds, is the portion of the program to which the cohort default rate exemption applies. For example, if the loan period for a non-term credit-hour program is three months in length and the institution meets the cohort default rate exemption, the three-month loan period is the payment period, and only one disbursement of the loan is required for that period.

IF A STUDENT BEGINS ATTENDANCE LESS THAN HALF-TIME

If a student who received a Direct Loan disbursement begins attendance for the loan period but does so on a less than half-time basis despite having originally enrolled (registered for classes) on at least a half-time basis, neither the school nor the student is required to return any loan proceeds. However, the institution may not make any subsequent disbursements of the loan, unless the student resumes enrollment on at least a half-time basis.



You must report the change in the student's enrollment status using NSLDS enrollment reporting. The student's loan servicer will then change the student's loan status from in-school to grace period, or from an in-school deferment to repayment status.



If your school has disbursed loan funds (as part of a Title IV credit balance) to the student or parent borrower, these funds will be collected by the servicer for the loan.

IF A STUDENT NEVER BEGINS ATTENDANCE ("NO-SHOWS")

If a student never begins attending classes at your school or fails to return as expected, you must use the G5 payment system to return –

- ♦ any Direct Loan funds that your school has credited to the student's account; and
- ♦ the amount of any and all payments made by the student to the school (not to exceed the original Direct Loan disbursement to the student).



Within 15 days, your school must update the student's COD record by making a downward adjustment, reducing the borrower's loan by the amount the school returned to the G5 system.



In addition, you must report the change in the student's enrollment status using NSLDS enrollment reporting. The student's loan servicer will then change the student's loan status from in-school to grace period, or from an in-school deferment to repayment status, and send a 30-day demand letter to the student.

Note that if your school has disbursed loan funds (as part of a Title IV credit balance) to the student or parent borrower, these funds will be collected by the servicer for the loan.

When a student fails to begin attendance or begins less than half time

34 CFR 685.303(b)(3)

34 CFR 685.211(e)(3)

34 CFR 668.164(f)

34 CFR 668.21(a)

DC GEN-13-02

Time frame to disburse or return funds

34 CFR 668.167

NSLDS Enrollment Reporting

If a student who received a Direct Loan disbursement either fails to begin attendance or begins attendance on a less than half-time basis, the school must report the change in the student's enrollment status to the Department (using the NSLDS enrollment reporting process) as required by the regulations at 34 CFR 685.309(b). Upon receiving the revised enrollment status from NSLDS, the student's federal loan servicer will change the student's loan status as follows:

- In-school status will change to grace period status.
- In-school deferment status will change to repayment status.

RETURN OF AID WHEN A STUDENT WITHDRAWS FROM ALL CLASSES

If a student has begun attending classes but then withdraws from all classes in a program (ceases enrollment), you must calculate whether funds must be returned to the FSA programs or the student is owed a post-withdrawal disbursement of FSA funds. This calculation involves all FSA funds received by the student (except work-study), so it will not be described in detail in this Volume. (See *Volume 5* for complete coverage of Returning Funds when a student withdraws.)

If the required Return calculations determine that your school must return some of the FSA funds that were received, these funds are returned first to the Direct Loan Program through the G5 payment system, up to the amount originally borrowed. When this happens, you must make a downward adjustment to the borrower's loan record and forward the change to COD.

After the COD system receives and accepts the adjustment, it passes the information on to the DL servicer so that the student or parent's loan balance is reduced accordingly.

If the withdrawal calculation indicates that the student owes funds back to the Direct Loan Program, the student will repay those funds according to the terms of the MPN. Your school does not need to attempt to collect any funds disbursed directly to the student.

If the withdrawal calculation indicates that the student is owed a Post-withdrawal loan disbursement or the student qualifies for a late disbursement after the enrollment period is over, you must update the student's loan record and transmit the change to the COD system as you would when reporting any other actual disbursement.

ADMINISTRATIVE AND FISCAL MANAGEMENT FUNCTIONS

Enrollment reporting with NSLDS and the roster file

All schools participating (or approved to participate) in the FSA programs must have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a roster file (formerly called the Student Status Confirmation Report or SSCR), or by updating the file on the NSLDS Professional Access website. Student enrollment information is extremely important because it is used to determine if the student is in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends roster files electronically to your school (or its designated servicer) through its SAIG mailbox. However, schools are required to notify ED of changes in a student's status within 30 days of the changes unless the school will submit a roster response file within 60 days. The file includes all of the school's students who are identified in NSLDS as Direct Loan borrowers (or the beneficiaries of a Direct PLUS Loan made to a parent borrower), Perkins Loan borrowers, and Pell Grant recipients. The file is not necessarily connected to loans made at your school—you also must report information for students who received federal student aid at other schools but are currently attending your school.

Your school (or servicer) must certify the information and return the roster file within 30 days of receiving it. You may also go to <https://www.nslsdfap.ed.gov/nslsdfap/> and update information for your students online. You're required to report changes in the student's enrollment status, the effective date of the status, and an anticipated completion date.

If the roster file that you are returning contains records that don't pass the NSLDS Enrollment Reporting edits, you will receive an error acknowledgement file with the records that didn't pass. Within 10 days, you'll need to make the necessary corrections to these records and resubmit them. Note that records that have errors do not update the NSLDS database. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that even if you contract with an enrollment servicer, your school is ultimately responsible for notifying NSLDS of student enrollment changes.

Enrollment Reporting Requirements

34 CFR 685.309(b)
DCL GEN 96-5
DCL GEN 96-17
DCL GEN 12-03

To receive Roster Files, schools must first enroll in SAIG

<https://www.fsawebenroll.ed.gov/>

Getting Your NSLDS User ID and Password

You must have a valid NSLDS user ID and password to use the NSLDS web site.

To get a user ID and password:

1. Go to the SAIG site at www.fsawebenroll.ed.gov and click Enroll
2. Follow the SAIG site's instructions to enroll for NSLDS access.
3. When your application is approved, you will receive your NSLDS user ID and a default password in the U.S. mail.

The first time you access the NSLDS web site, you will be asked to choose a new password to replace the default password.

If you have any problems accessing the NSLDS web site, call the Customer Service Center (CSC) at 1-800-999-8219, Monday through Friday from 8 a.m. to 8 p.m. ET.

Enrollment Reporting/SSCR Technical References

For complete guidance on reporting enrollment information to NSLDS, including record layouts, error codes, etc., see the **Enrollment Reporting Guide** available online on the ifap.ed.gov site under "NSLDS Reference Material - NSLDS User Documentation."

Enrollment Reporting Online

Once you've established your NSLDS identity, you can use the system to:

- **Enrollment Reporting Schedule**—Set up or change your current enrollment schedule, create a new schedule, or request that additional ad hoc Enrollment Reporting roster files be sent to your school.
- **Enrollment Update**—Select a student or range of students, and make changes to their enrollment information. You can choose which students to retrieve and how they are to be sorted—by name, Social Security Number, school-designated identifier, or enrollment status. The default setting displays all students associated with your school, thirty at a time/per page.

Enrollment Add—Add students to your Enrollment Reporting roster. Once a student has been added, you can immediately certify the enrollment status and anticipated completion date for that student.

Note: The system contains all enrollment data received on or after of January 1, 2002.

- **Enrollment Detail**—View a detailed history of a student's enrollment status.
- **Enrollment Timeline**—View a chronology of a student's enrollment status as reported to NSLDS.

Recent enhancements to the reporting process

Three additional data items have been added to a school's Enrollment Reporting files. These new data items were included in the new roster layouts with compliance scheduled for the end of March 2013.

1. **Credential Level.** Schools (or their servicers) will report the Credential Level of the academic program that the student completed when reporting an Enrollment Status of "Graduated – G". A Credential Level data field is included in the revised NSLDS Enrollment Reporting file layouts.

The Credential Level codes are:

- 01 – Undergraduate Certificate
- 02 – Associate's Degree
- 03 – Bachelor's Degree
- 04 – Post-Baccalaureate Certificate (including postgraduate certificates)
- 05 – Master's Degree
- 06 – Doctoral Degree
- 07 – First Professional Degree

2. **Student's Address –School Reported.** Schools (or their servicers) will report students' permanent home addresses. Student address data fields are included in the revised NSLDS Enrollment Reporting file layouts.

3. **Term Dates.** As an option, schools (or their servicers) may report the beginning and ending dates of the academic term of the student's current (or most recent) enrollment. Consider, for example, a school that is reporting enrollment for its spring 2011 term that began on January 25, 2011, and will end on May 15, 2011. When reporting enrollment for students enrolled in the spring 2011 term, the school would report January 25, 2011, as the term begin date and May 15, 2011, as the term end date. These are optional reporting fields that will be useful to the student's loan servicer.

Important enrollment reporting reminders

To ensure the integrity, reliability, and usefulness of NSLDS enrollment data, it is important that all schools understand the requirements of NSLDS Enrollment Reporting. Pay special attention to the following requirements:

1. ***Recertification of Enrollment Status.*** Schools must confirm the enrollment status of all students included on its NSLDS Enrollment Reporting file—even if the enrollment status for that student has not changed. For example, consider a student who began enrollment at a school on a full-time basis on August 25, 2012, with the school reporting that enrollment on its fall 2012 Enrollment Reporting file with a certification date of October 14, 2012. The school will continue to certify the student's enrollment as full-time on all subsequent NSLDS enrollment files as long as the student has maintained continuous full-time enrollment. Thus, if this student remained enrolled full-time through the spring of 2013, the school would have reported in its spring 2013 enrollment reporting file, full-time enrollment with an effective date back to August 25, 2012, when the student began continuous full-time enrollment. Of course, the certification date would be the date in spring 2013 when the enrollment was reported.
2. ***Completion/Graduation Data.*** It is critically important for the Department's evaluation of the Title IV student aid programs that schools report accurate and timely information regarding completion of the student's academic program (NSLDS enrollment status of Graduated (G)). Therefore, schools (or their agents) must report to NSLDS an Enrollment Status of "G" when the student has completed his or her academic program.
3. ***Transfer Students – School Responsibility.*** NSLDS has long encouraged schools to add transfer students to their enrollment rosters if the student had received Title IV aid at one or more other schools. Adding such students can be done by using the NSLDS online enrollment tools or by adding the student to a batch Enrollment Reporting file. Reporting enrollments for these students allows lenders and servicers to maintain or place the student in the proper status (e.g., in-school status, in-school deferment status) and avoids having schools complete paper enrollment verifications.

Schools that use an enrollment servicer are reminded that the servicer must add a student who does not already appear on the school's NSLDS roster.



Updating enrollment information on the Web

You can create or update student enrollment status by using the NSLDS Professional Access website for aid professionals:

https://www.nsldsfa.ed.gov/nslds_FAP/default.jsp

NSLDS Customer Support Center:
1-800-999-8219

Enrollment Status of Less than Half-Time. It is very important that schools update the enrollment of a student for whom they had previously reported as being enrolled less than half-time (Enrollment Status Code of “L”). (One of the important reasons for updating the enrollment of such students is that a student who may be enrolled less than half-time at more than one school may be eligible for an in-school status or an in-school deferment on his or her Title IV loans.)

Reporting enrollment status changes is important not only when the student’s enrollment increases, but also when the student either completes the program (Enrollment Status Code of “G”) or withdraws from the school (Enrollment Status Code of “W”).

The enrollment status of “L” now (March 31, 2013) also requires an anticipated completion date.

Other notifications

Unless it expects to report student enrollment data to NSLDS within the next 60 days, your school must update the student’s enrollment status in NSLDS within 30 days if it discovers that a –

1. Direct Subsidized/Unsubsidized Loan or Direct PLUS Loan has been made to or on behalf of a student who enrolled at that school but who has ceased to be enrolled at least half time;
2. student who is enrolled and who has received a Direct Subsidized/Unsubsidized Loan has changed his or her permanent address.

RECONCILIATION AND CLOSEOUT

In the Direct Loan Program, ensuring that loan and disbursement records substantiate the use of Direct Loan funds is critical to program integrity and fiscal responsibility. Reconciliation and closeout are two processes that substantiate the use of Direct Loan funds and help ensure school compliance with the appropriate regulations.

Reconciliation

Direct Loan schools are required to reconcile all Direct Loan funds received and disbursements made on a monthly basis.

A School Account Statement (SAS) is delivered to schools immediately following the first full weekend of the month, with data through the end of the previous month. The SAS is transmitted to each school's Student Aid Internet Gateway (SAIG) mailbox. The SAS Report represents the Department's official monthly Ending Cash Balance for a school. We encourage schools to review and compare their internal records to the data contained within the SAS report by –

- ♦ comparing the SAS Cash Summary to school cash records;
- ♦ comparing the SAS Cash Detail to school accounting records; and
- ♦ comparing SAS Loan Detail to school loan records.

In reconciling to the SAS Cash Summary, schools should ensure that:

- ♦ at a summary level, the school records match the SAS Cash Summary amounts for individual transaction types (e.g., cash receipts, etc.);
- ♦ if the summary level transactions do not match, that a detailed analysis is performed to identify any discrepancies;
- ♦ the school agrees with the Department's Ending Cash Balance or can explain the differences; and
- ♦ reasons for Ending Cash Balance discrepancies are documented and tracked for resolution in the next month's reconciliation.

Direct Loan Tools 12.0

The DL Tools software is a multiyear Windows-based application designed as a supplemental software product for Direct Loan participants. It's designed to process data for multiple program years and provide the following functionality:

- Compare the School Account Statement (SAS) to loans and actual disbursements recorded in EExpress or an external file, and/or compare the SAS to the DL Tools Cash database.
- Print the SAS in a readable format.
- Track Cash Receipts (drawdowns) and Refunds of Cash.
- Rebuild your Direct Loan origination and disbursement records in EExpress using an automated process.
- Run the Disbursement Measurement Tool Report to help monitor Direct Loan records in your EExpress database.

In reconciling to SAS Cash Detail, schools should ensure that –

- ♦ all drawdowns and refunds of cash are accounted for and applied to the correct year;
- ♦ funds were returned correctly as refunds of cash or payments; and
- ♦ funds are not recycled for disbursements in a different award year.

Documents that can assist you in comparing Cash Detail include –

- ♦ Cash Detail Comparison Report (DL Tools),
- ♦ financial aid office cash report,
- ♦ COD website – Refund of Cash/Cash Activity,
- ♦ G5 website and reports,
- ♦ SAS Cash Detail,
- ♦ school's business office cash report,
- ♦ school's bank statements, and
- ♦ school's cancelled checks.

In reconciling to SAS Loan Detail, schools should ensure that all –

1. disbursements and adjustments are accurately reported and accepted by COD;
2. batches have been sent to and Common Record responses have been imported;
3. unbooked loans are resolved;
4. rejected records are reviewed and resolved; and
5. related refunds of cash have been returned to the Department according to the guidance provided in (Electronic Announcement) EA 2012-03-13 (Direct Loans) at

www.ifap.ed.gov/eannouncements/031212UpdatedGuideonMakingDLRefundsofCash.html.

Documents that can assist you in comparing Loan Detail include –

- ♦ SAS Reports (e.g., the SAS Detail on Demand Report),
- ♦ 30-day Warning Reports,
- ♦ COD website,
- ♦ DL Tools/SAS Compare Program,
- ♦ Booked Status Report (via the reporting functionality in your financial aid system),
- ♦ Pending Disbursement List, and
- ♦ Funded Disbursement List.

COD Customer Relations Reconciliation Specialists are available to help your school with the reconciliation process.

Closeout

Direct Loan schools are required to have –

- ♦ a \$0 ending cash balance (total funds received = total disbursements reported); and
- ♦ total Net Unbooked Disbursements of \$0 by the point in the program year known as **Program Year Closeout**, as reflected on the School Account Statement (SAS) Report.

Schools that have remaining balances at closeout are billed for any remaining balance, and a receivable is created by the Department to ensure any excess funds are repaid.

ED encourages schools to include the following simple steps while reviewing their school's internal records and comparing them to the Common Origination and Disbursement (COD) System records –

1. ensure all drawdowns and refunds of cash are accounted for and applied to the correct program year;
2. ensure all disbursements and adjustments are accurate and have been reported to and accepted by the COD System;
3. ensure all batches have been sent to and accepted by the COD System;
4. ensure all unbooked loans are resolved;
5. resolve all outstanding rejected records; and
6. return all refunds of cash to us according to the guidance provided in EA 2012-03-13.
7. There are numerous tools available to assist schools in reconciliation and closeout efforts. These tools include –
 - SAS Reports;
 - 30-day Warning Reports;
 - G5 website and reports;

- COD website (particularly the Funding Information screen);
- DL Tools/SAS Compare Program; and
- Customer Service Representative/Reconciliation Specialist assistance.

If you require assistance in performing reconciliation or closing a program year, please contact the COD School Relations Center at

(Grants) 1-800-474-7268

(Loans) 1-800-848-0978

Email: CODSupport@ed.gov

LOAN CONCEPTS FOR THE BUSINESS OFFICE

Accepted MPN

Once a borrower completes an MPN, it is examined in the COD system for completeness. If, during processing, COD finds that all of the required fields on an MPN have been completed correctly, COD will accept and link the MPN. An accepted and linked MPN is one of the criteria required for a loan to be *booked*.

Booked Loan

A booked loan is one that is a legal binding obligation between the borrower and the U.S. Department of Education. A loan is considered booked when the COD System has accepted the loan origination record (the award record has been linked to the MPN {the identifiers for the borrower match on the MPN and the COD common record}), the MPN, and the first actual disbursement record for that loan ID. PLUS and Grad PLUS Loans also require an accepted credit decision on file in the COD System to be booked.

If the school is a single-year functionality school, the Direct Loan School Code and the academic start/end dates have to match a same-year like loan for it to link.

Borrower

An individual to whom a Direct Loan is made and who has the legal responsibility to repay the loan according to the terms and conditions of the promissory note.

Capitalizing interest

Capitalizing interest is adding unpaid, accrued (accumulated) interest to the principal balance of a loan (that is, to the total amount borrowed). Whether interest will capitalize depends on whether interest is (1) unpaid and (2) the borrower's loan changes statutes (for example moves from deferment to repayment).

Default

A status that a loan is placed in if the borrower has failed to make a payment when due for more than 270 days or violates other terms and conditions of the promissory note. Borrowers who default on Direct Loans lose eligibility for further federal student aid, will have their default reported to national credit bureaus, and may have their wages garnished or tax refunds offset by the government.

Capitalizing interest

34 CFR 685.202(b)

Deferments,

34 CFR 685.204

Deferments

Deferments are periods during which borrowers are entitled to have payments of principal and interest on Direct Loans postponed if they meet the eligibility criteria for the deferment. No interest accrues on Direct Subsidized Loans during periods of deferment. However, interest accrues for borrowers of Direct Unsubsidized and Direct PLUS Loans. Borrowers who do not pay the interest that accrues during a period of deferment will have that interest capitalize when the deferment ends. Examples of reasons that entitle a borrower to deferment include, being enrolled in postsecondary education on at least a half time basis, unemployment, or economic hardship.

Discharge

34 CFR 685.212

Discharge

A loan discharge removes the obligation of the borrower to repay all or a portion of a loan. Under certain conditions, all or a portion of a borrower's loan debt may be cancelled or discharged. Examples of conditions for which discharge may be granted include:

- ♦ borrower death or total and permanent disability,
- ♦ borrower bankruptcy,
- ♦ a closed school,
- ♦ a school falsely certifying a loan, and
- ♦ a school failing to refund loan proceeds.

Endorser

An individual who signs a promissory note and agrees to repay the loan in the event that the borrower does not.

Forbearance

Forbearance

34 CFR 685.205

Forbearances are similar to deferments. A forbearance refers to periods in which borrowers are allowed to temporarily stop making payments, extend the time for making payments, or temporarily make smaller payments than previously scheduled. Interest accrues on all Direct Loans during period of forbearance and will capitalize at the end of the forbearance if the borrower does not pay it.

Forbearances can be discretionary or mandatory. A discretionary forbearance is one that a lender is not required to grant. Most lenders grant forbearance in cases where medical or other similar reasons cause the normal monthly payment amount to be temporarily unaffordable. A mandatory forbearance is one that a lender is required to grant if the borrower meets certain eligibility criteria. Examples of reasons that entitle a borrower to a forbearance include having a large student loan debt burden or serving in a medical or dental internship or residency.

Forgiveness

Loan forgiveness removes the obligation of the borrower to repay all or a portion of a loan. Under certain conditions, all or a portion of a borrower's loan debt may be forgiven. Examples of conditions for which forgiveness may be granted include:

- ♦ teaching in a low-income school; or
- ♦ providing public service

Foreign school

A school not located in a state, territory, or possession of the United States, or otherwise administered by the government of the United States. For the purposes of the Direct Loan Program, a state includes a State of the Union, American Samoa, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau.

Grace Period

The grace period is the six-month period before a loan enters repayment. The grace period starts the day after a borrower ceases to be enrolled at least half-time in an eligible school. It ends six months later, on the day before the loan repayment period starts.

Generally, Direct Subsidized Loans do not accrue interest during the grace period. However, the Consolidated Appropriations Act of 2012 temporarily eliminated the interest subsidy previously provided on Direct Subsidized Loans during the grace period when students are no longer enrolled at least half-time. This change is effective for Direct Subsidized Stafford Loans that are first disbursed on or after July 1, 2012, and on or before June 30, 2014. During the grace period, borrowers are not required to make payments on the loan principal but are responsible for the interest that accrues during the grace period.

If a student returns to school at least half time before the grace period ends, the student's loan returns to an in-school status, i.e., does not enter repayment. Such students, when dropping below half-time enrollment once more, will have a full six-month grace period. If a student has exhausted his or her grace period before returning to school on at least a half-time basis, the student's loans will enter an in-school deferment while enrolled at least half time, but the student will be responsible for immediate repayment once his or her enrollment drops below half-time status. For example, if a student uses three months of her grace period and then reenrolls at half time status or greater, upon terminating enrollment or dropping below half time, the student is eligible for the six months of grace period even though the he or she has previously received three months of grace period.

Grace period

34 CFR 685.207(b) & (c)

Prepayment application & prepayment

34 CFR 685.211(a)

Holder

The owner of the loan. In the Direct Loan program, the holder is ED.

National credit bureau

A credit bureau with a service area that encompasses more than a single region of the country.

Origination fee

A fee paid by a borrower to help defray the cost of making a Direct Loan.

Payment Application & Prepayment

When a borrower makes any payment, the payment is credited first toward outstanding fees and collection charges, then outstanding interest, and then outstanding loan principal.

Direct Loan borrowers can prepay at any time without penalty, that is, without paying an additional charge.

When a borrower makes a prepayment that equals or is more than the monthly repayment installment amount, ED treats the excess payment, absent instructions from the borrower, as being intended for future installments. ED will apply the payment to fees or collection charges, interest, and then principal. Then, ED will advance the due date of the next payment and notify the borrower of the new due date for the next payment.

When a borrower makes a prepayment that does not equal or exceed the monthly payment amount, ED does not treat the excess payment as being intended for future installments unless the borrower instructs ED to do so. Regardless, ED will apply the payment to fees or collection charges, interest, and then principal.

Period of enrollment

The period for which a Direct Loan is intended. The period of enrollment must coincide with a period established by the school for which institutional charges are generally assessed (e.g. semester, trimester, quarter, length of the student's program or academic year). The period of enrollment is also referred to as the loan period.

Repayment

A period during which a borrower is obligated to make payments on the loan according to the terms and conditions of the repayment plan the borrower chooses unless the borrower has been granted a deferment or forbearance.

For Direct Subsidized and Unsubsidized Loans, repayment begins the day after the grace period ends. For Direct PLUS Loans, repayment begins the day after the loan is fully disbursed.

